

# FOREIGN POLICY BULLETIN

*An analysis of current international events*



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## World Bank Supports U.S. Policy On European Recovery

WASHINGTON — By encouraging Western European countries to integrate their economies in order to obtain lasting benefits from the Marshall plan, the International Bank for Reconstruction and Development has become a useful economic instrument for the United States in its power contest with the Soviet Union. The Bank's new role is revealed in its third annual report, published on September 29.

### Bank Helps West

Since the enactment of the Economic Cooperation Act (Marshall plan) on April 3, the Truman administration has been urging the recipients of aid under the act to work for the creation of a semicontinental economic system to replace the multitude of national systems now existing in Western Europe. Going beyond the announced desires of Mr. Truman, Governor Dewey, Republican candidate for the Presidency, said at Salt Lake City on September 30 that, if elected, he intended to use the Marshall plan "as the means for pushing, prodding and encouraging the nations of Western Europe toward the goal of European union." While such integration conceivably would benefit the economy of the whole world, at present it would be important chiefly insofar as it would strengthen Western Europe which, from mistrust of Russia, is contemplating the establishment of a military union.

Under the circumstances the three Eastern European members of the bank (Czechoslovakia, Poland, and Yugoslavia) protested during the annual meeting of the Board of Governors in Washington on September 29 that the institution shows a

partiality "not consistent with its Articles of Agreement" as an international organization when it states in the report that "it is the intention of the Bank to supplement" the Marshall plan (now a major instrument of Western policy) by its loans and that "hope for ultimate European recovery will be dimmed" unless Western Europe achieves "a degree of economic cooperation never achieved in the past." The report also bolstered American, as contrasted with Russian policy in recommending "more effective utilization of German productive facilities, to the extent consistent with security precautions," as "an essential requirement for European recovery." Eastern European critics think they have found another tie between the Bank and Germany in the fact that on June 1 the Bank sold approximately \$4 million in Swiss francs to the Bank of International Settlements at Basle, Switzerland, which during World War II was accused of acting as financial agent for Nazi Germany. The American government now thinks that this charge was exaggerated. It may be noted that the Economic Cooperation Administration, which is responsible for the execution of the Marshall plan, has named Thomas McKittrick, wartime president of the B.I.S., as adviser to W. Averell Harriman, the President's special representative abroad for Marshall plan matters.

The United States and Britain together hold 47.58 per cent of the voting power of all the members, which with the admission of Austria on August 27 now number 47. The United States casts 32,000 votes (33.65 per cent) of a total of 95,110,

inasmuch as it subscribes 38.09 per cent of the Bank's total subscriptions of \$8.336 billion. Since the Soviet Union has not chosen to join the Bank or the Monetary Fund, only the Czechs, Poles, and Yugoslavs are on hand to expound the Eastern European view. The report indicated that the Bank will not make loans to countries in this minority group on the ground that they suffer from economic and financial conditions which present "special problems." The report did not define these conditions, but they are assumed to be the Communist character of their governments, which impels them not only to support the Soviet Union in international affairs, but also to discourage private enterprise at home. The Bank's report (like the current *Foreign Policy Report* on "Problems of the Underdeveloped Countries" by Harold H. Hutcheson), recommends private investment abroad. But it notes, with Dr. Hutcheson, that "sound development requires much more than simply making available large sums of money."

### Tariffs and East-West Trade

While international organizations are tending to become forums for the East-West dispute instead of temples for reconciliation, the Bank's report makes recommendations that run counter to the opinions of strong groups in the United States and which, if followed, might slightly modify world tensions. "It is important that the trade policies of the United States be adapted to its position as the great creditor nation of the world," the report notes—a hint for Congress to authorize

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the reduction of American tariffs and other trade barriers below the levels to which they have descended on the Reciprocal Trade Act elevator, and to accept the charter of the International Trade Organization, which will be laid before the Eighty-first Congress soon after it meets in January.

In advocating the revival of East-West trade within Europe itself as a matter of "vital importance," the report supports the theory of the Marshall plan but not the practice of the present administrators

of the plan. Truman and his advisers have recognized that pan-European trade would strengthen the Western European economy but fear that it would also strengthen Eastern European military potential. In this dilemma the Administration has not encouraged a maximum of East-West trade. The report poses a problem also for Europeans when it recommends the modernization and expansion of Western Europe's plant and equipment by diversion of a considerable part of production from consumer to producer

goods. The Soviet Union, which follows such a policy under its series of Five-Year plans, has been severely criticized on this score by the West. The intensification of present austerity programs in Western Europe might increase hardship and discontent, and thus strengthen the Communist parties which the Marshall plan is intended to weaken—especially if the United States insisted on such austerity in order to promote European union which the Administration and Governor Dewey desire.

BLAIR BOLLES

## ***West Rallies For U.N. Debate With Russia***

With the submission to the UN Security Council on September 29 of the three Western powers' identic notes charging that Russia's blockade of Berlin is a "threat to the peace"—a charge the Council started discussing on October 4—the conflict between East and West passed from the stage of disputes and negotiations between the Big Four to the larger arena of the UN. As the historic Council debate got underway, the prevailing view in Paris and Washington was that this winter at least there would be no danger of war, no matter how bitterly each side might denounce the other.

### ***Military Union Problems***

While on-the-spot reports agreed that there were no signs of war preparations in Russia and Eastern Europe, the United States and the Western European nations speeded up their preparations for military co-operation in case of emergency. On September 28, the day after announcement that Big Four negotiations over Berlin had been broken off, the defense ministers of the five Brussels pact nations—Britain, France, the Netherlands, Belgium and Luxembourg—made it known that they had established a "permanent staff organization" to "include the nucleus of a land, air and naval command with a permanent military chairman"—a post for which Field Marshal Viscount Montgomery of Alamein, distinguished British military leader in World War II, was designated. Britishers were also slated for command of naval and air forces, while General Alphonse-Pierre Juin of France, wartime commander of French troops in North Africa and Italy, was named to command land forces.

Two problems immediately cropped up. First, the Western European nations, their industries already strained by recovery efforts, must have armaments—

and hope to obtain them from the United States under some form of lend-lease. This matter is expected to be at the head of the legislative list when Congress meets in January. The second problem was France's decision to postpone acceptance of the September 28 defense program because of vigorous objections registered by General de Gaulle on October 1, and the subsequent refusal of General Juin to accept the post to which he had been assigned. French opposition to the predominance of Britishers in the proposed setup was reported due to fear that, if Russia were to overrun Western Europe, Britain would elect to withdraw from the continent as it did in 1940, and insist on using its own territory as the main line of defense. The stationing of a group of American B-29s in Britain, while reassuring to the British, has merely confirmed French belief that the Western stand would be made in the British Isles, with the continent left to shift for itself. This problem was resolved on October 4 by the appointments of General Jean de Lattre de Tassigny, Inspector General of the French Army, as commander-in-chief of the Western European ground forces and of French Admiral Jaujard as flag officer. (but not commander-in-chief) of Western Europe and naval representative on Lord Montgomery's staff.

### ***Germany Remains the Issue***

Out of the welter of verbal thrusts and counterthrusts delivered in the UN General Assembly, three main points emerge. First, the issue discussed by the Western powers with the Kremlin for two weary months, and now thrown into the lap of the Security Council, although solely concerned with the Russian blockade of Berlin and the intricacies of adopting a single currency for the German capital, is and has been the future of Germany.

And since Germany, even in defeat, remains the heart of the continent, the issue is the future of Europe. The 25,000-word document published by the Department of State indicates that the Western diplomats were surprised and disheartened by the stubborn way in which Stalin and Molotov, when brought back again and again to the blockade and currency questions, kept on reverting to the problems of Germany as a whole. The Russians, however, had repeatedly indicated their concern about the creation of a Western German state, and it is known that Germany was the principal subject discussed at a conference of eight Eastern European Foreign Ministers held in Warsaw on June 23 to formulate countermeasures to the six-power London agreement on Western Germany and international control of the Ruhr. The Russians have asserted—most recently in Marshal Sokolovsky's Berlin statement of October 2 proposing resumption of currency negotiations—that the blockade represented retaliation for the London agreement. Since the Western powers had declared they would not negotiate under "duress"—that is, presumably, as long as the blockade was maintained—the Russians apparently assumed that the Big Three decision in July to approach Stalin was a first step to abandonment of plans for a Western German state. Each side seems to have thought the other would yield—and neither was prepared to compromise on what both recognize to be the fundamental issue—that is, which of the wartime Allies will determine the future development of Germany. The Security Council must now discover an alternative formula. If it fails, the problem will be turned over to the General Assembly.

### ***Tide Against U.S.S.R.***

The second notable aspect of the General Assembly debate has been the growing

bitterness against the U.S.S.R. voiced most vigorously by British Foreign Secretary Ernest Bevin and Socialist Premier Paul-Henri Spaak of Belgium. Mr. Bevin minced no words in lashing out at Russia, and declared that Moscow's conduct was leading to the formation of a regional grouping in Western Europe for purposes of self-defense. M. Spaak said that the foreign policy of the Soviet government was bolder and more ambitious than that of the Tsars, and that Communist fifth columns operating in other countries made Hitler's agents look like Boy Scouts. In contrast to American and British spokesmen, however, M. Spaak pleaded with the Kremlin for an understanding before it is too late. He expressed fear that Russia's course was based on dangerous ignorance of what people want and think in the countries of Western Europe, adding: "We do not want to dispute communism. We consider that for many countries communism may be necessary, but we think it is something the Western world can do without."

### ***Is Russia Afraid of West?***

A third point noted by observers in Paris was the emphasis placed by Deputy Foreign Minister Andrei Y. Vishinsky on the disabilities to which Russia claims it is subjected in the UN. The former Soviet prosecutor charged that there was "a

conspiracy by the majority against the rights of the minority," that the Russians must hit their heads "against the stone wall of your denials of our rights." "How can we expect," he asked the Assembly, "that . . . your majority will be just? How can we expect that we will be secure?"

He sounded the same note when the report of the Atomic Energy Commission was taken up by the Political and Security Committee of the General Assembly. The United States, whose position is backed by the other members of the commission with the exception of Russia and the Ukraine, has taken the view that an international control authority should be established first, and only after it is in operation should facilities for the production of atomic bombs be gradually transferred to this authority. Russia has consistently maintained that all existing atomic bomb stockpiles should first be destroyed, before an international control system is adopted. The United States has proposed that the veto should not apply on atomic-energy questions; Russia had insisted that it should apply. In a resolution presented on September 30 Canada, supporting the Atomic Energy Commission's majority proposals, contended that "only if traditional economic and political concepts are adapted to the over-riding requirements of international security can these proposals

be implemented," and suggested that the General Assembly declare it sees no alternative to "the voluntary sharing by nations of their sovereignty in this field." On October 1 Mr. Vishinsky bitterly denounced the American plan which, he insisted, is designed to give the United States control of the world's economy, said that Russia would "never, never" accept it, and hinted that countries other than the United States might possess or acquire the secret of the atomic bomb. The next day, however, he proposed that treaties outlawing the atomic bomb and establishing an international control system be drawn up simultaneously. Commenting on Mr. Vishinsky's atomic-energy resolution, Warren R. Austin, permanent United States delegate to the UN, described it as an "Oriental maneuver." Some Western observers, however, have raised the question whether it is advisable to take a negative view of every Russian proposal merely because it is made by Russia. Instead it is suggested that every proposal should be examined for whatever merits it may have or shifts of policy it may indicate. If, they say, it is a mere vehicle for propaganda, then that fact itself should be aired in international gatherings, rather than give the Kremlin the tactical advantage of asserting that its suggestions are invariably rejected.

VERA MICHELES DEAN

## ***Airlift Shows U.S. Aim To See Berlin Crisis Through***

On returning from a stay of several months in Germany, one finds here in talking about the German situation a great deal of confusion and uncertainty. More particularly there seems to be much misunderstanding of: (1) the Berlin crisis; (2) the fate of the expellees; and (3) German governmental development.

### ***Airlift and Blockade***

There has been a profound change in the attitude, not only of Germans but of many other Western Europeans as a result of the United States airlift in Berlin. The Soviet Union has been steadily losing in prestige and popularity throughout Germany and Europe ever since it precipitated the conflict by its blockade of road and rail communications. It is only fair to say that the Russians probably would never have started the blockade had they realized that the United States would make such an all-out effort. They should have known this would happen, since key American officials, including Secretary of

State Marshall and General Clay, made it amply clear that the United States would do everything in its power to maintain our position in Berlin. There is every indication that neither the Soviet Union nor its German supporters in the Communist-dominated Social Unity party ever believed that the United States and Britain would undertake to supply the German population of the western sectors, by air. Not only many articles in the Russian and German Communist press, but several other facts indicate that the magnitude and efficiency of the airlift were wholly unanticipated. In any case, it is clear that the Germans are virtually unanimous in approving American policy regarding Berlin, the only real exception being the Berlin leaders who feel that the United States should have been more determined in anticipating Russian aggression.

There has been much argument about whether the airlift can be maintained through the winter at a level permitting

industrial production in the western sectors of Berlin, or whether Berliners will be faced with increasing unemployment. The question is a familiar one, and has been discussed ever since the start of the airlift. The answer can be given only in terms of the determination of the American people to see it through. Technologically, there is no reason why the airlift cannot be expanded to take care of all essential requirements.

At the very beginning of the blockade the Communists in Berlin attempted to stage a popular uprising before the City Assembly in the Soviet sector. The demonstration proved a dismal failure. The workers showed up as they had in Nazi times, but they exhibited no active interest, and the Communist manipulators found themselves obliged to call off the demonstration in the early evening. A few weeks later the top German Communist in the Soviet zone, Wilhelm Pieck, stated that three weeks of the airlift had

undone three years of Communist party spadework in Germany. The disturbances of the second week of September 1948 may therefore be considered desperate attempts on the part of the Communist leaders to prove to their Soviet superiors that their hopes were not wholly unfounded. The plight of these politicians, who confidently predicted some time ago that the Western Allies would be out of Berlin by May 1, is truly desperate. By contrast, the United States has actually recaptured, as a result of the airlift, a very large part of the good will of many Europeans who had begun to doubt American intentions. The European attitude can be summed up by saying that the rich man giving money to his poor relative is often resented, but the rich man risking his life for that same relative is sincerely admired.

To all Europeans concerned over the aggressive designs of the Soviet Union in Germany and Western Europe, the airlift showed clearly the seriousness of American intentions, and this country's readiness to stand up and fight back when totalitarian aggressors seek to subjugate free men. The fact that the United States proved willing to make such sacrifices on behalf of a population with which it is still formally at war suggested how much more it would be ready to do for the liberated nations of Western Europe. In this sense, the defense of Berlin has proved a real boon, even to the ERP. It has shown that this program is incidental to a broader political objective.

### **Fate of Expellees**

Perhaps the gravest problem confronting the Allies and the Germans working on their side for the democratization of Germany is that created by the vast number of expellees, the approximately 4.5 million uprooted human beings who have been pushed into Western Germany from their native habitat in the Eastern German provinces now included in the Soviet Union and Poland. To these must be added the millions more who never have been German citizens until now—except for the forcible absorption decreed by Hitler—of whom approximately 1.5 million came from Czechoslovakia, and about 1 million from Rumania, Hungary and

Yugoslavia. These more than 7 million expellees constitute the most uncertain factor in German politics. At one time it was widely believed among Communists, and feared by others, that these people would turn to communism in due course. Actually, the Communists have gained very little support from them. Regardless of the morals of the situation, the politically important fact is that in every German community anywhere from 10 to 60 per cent of the population now consists of penniless outsiders who have been crowded into these communities against their will, and against whom the resentful indigenous population tries to discriminate. The Eastern Germans—not to mention the German-speaking elements from the Balkan countries—have always been among the least democratic elements of the German people. Hitler himself came from that background, and many of his most ardent followers belonged to these groups. Some of them continue to be Nazis, others are democrats, but the largest number are completely confused and befuddled. It is a desperate and perhaps decisive question which only the future can resolve—whether the 35 million Germans of the western zones will succeed in assimilating the 7-odd million expellees. If they succeed, the democratization of the German people will register a great and lasting gain; if they fail, the future of democracy in Germany will once more be jeopardized.

CARL J. FRIEDRICH

*(The first of two articles on current conditions in Germany. Dr. Friedrich, Professor of Government at Harvard University, has just returned from Germany, where he served as adviser to the United States Military Government.)*

### **Forthcoming FPA Meetings**

ST. LOUIS, October 14, *Germany: Pawn Between East and West*, Alexander Boeker

WORCESTER, October 14, *An Economic and Political Survey*, George A. Fallon, Harold G. Jones

CINCINNATI, October 15, *American Foreign Policy in a Troubled World*, Elmer Davis

HOUSTON, October 20, *Creating a New State in Germany*, Alexander Boeker

AUSTIN, October 21, *Germany: Pawn Between East and West*, Alexander Boeker

### **News in the Making**

The Pan American Union is taking the lead in a hemisphere-wide program of *conservation of natural resources* inspired by dire warnings that large areas of Latin America face starvation as a result of reckless denudation of the soil to sustain a population that is increasingly beyond the estimated capacity of the land to sustain it. An Inter-American Conference on Conservation of Renewable Natural Resources met in Denver, Colorado, in September to discuss means of dealing with this problem and to study U.S. Soil Conservation Service projects. . . . A long, and at times bitter, controversy of the United States with the Netherlands and Belgium over the *shipment of goods through the ports of Rotterdam and Antwerp* was ended, at least temporarily, on September 30, when General Lucius D. Clay, United States Military Governor in Germany, approved an agreement on this matter. Under this agreement, which is to run for a "trial period" of three months, General Clay accepted the principle of "nondiscrimination" on cargoes that can be shipped to and from Western Germany through Antwerp and Rotterdam. . . . *General Clay's policy on shipment of German goods* had been condemned by the Dutch and Belgians as "more autarchic than the transportation policy of Hitler," and as a serious barrier to the economic recovery of the Low Countries. The contention of General Clay was that he had to follow a rigid budget, and could not afford to pay dollars for transport through Rotterdam and Antwerp when comparable service could be obtained for German marks in the Bizonia ports of Hamburg and Bremen. Now it is reported that Western Germany will be paid \$5 million a year out of ERP funds to defray the additional transportation costs of using the Netherlands and Belgian ports. . . . Vienna reports of September 30 indicate that, following the return from Moscow of Austrian Minister Norbert Bischof, new hope was expressed concerning the possibility of concluding an *Austrian peace treaty*, which will be discussed with the Big Four in Paris by Austrian Foreign Minister Dr. Karl Gruber.

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